June 1991 Monthly Survey July 12, 1991

Surveys of Consumers

Richard T. Curtin, *Director*

THE END OF THE RECESSION: "LET THE GOOD TIMES CRAWL"

Upward Trend In Confidence

The Index of Consumer Sentiment was 82.1 in the June 1991 survey, up from 78.3 in May. Except for the March surge due to the euphoria at the war's conclusion, the June reading is the highest since the Persian Gulf crisis began last August, and 18.2 Index-points above the October 1990 low. Although the overall nine-month gain in confidence has been substantial, little further improvement has been recorded in recent months, as the Index has remained largely unchanged since April.

The data continue to indicate an improving, but sluggish pace of recovery in consumer spending during the year ahead. The central issue will continue to be consumers ability to buy. Lagging incomes have left consumers less able than willing to buy, resulting in spending gains coming thus far from reduced savings.

The recovery in consumer confidence is but half finished: while the fear and anxiety has largely disappeared, it has yet to be replaced with confidence and optimism. Thus far, most of the gains have been in heightened expectations for future improvement rather than in actual improvements. Until improved economic conditions begin to confirm these expectations, we are unlikely to see further significant gains above the already elevated levels of consumer sentiment.

Northeast Trails Rest of Nation

The slow, uneven pace of the recovery in consumer spending will also reflect significant regional differences. The June improvement was shared by residents of all regions except those living in the Northeast. The largest gains were posted in the South (85.9 in June, up from 79.0 in May), followed by residents of the Midwest (82.5, up from 76.6), and the West (86.6, up from 84.0). In contrast, declines were recorded in the Northeast (to 69.9, from 73.5 in May), leaving sentiment in the Northeast significantly lower than in any of the other regions.

Leading Indicator Posts Improvement

The Index of Consumer Expectations, the component of the Index of Leading Indicators, rose to 75.9 in the June 1991 survey, from 71.5 in May and a low of 50.9 in October 1990. The nine-month gain restored the Expectations Index to within one Index-point of its year earlier level. Most of the gain, however, was recorded by April, with little further change during the past two months.

In contrast to the strong improvement in expectations of future change, consumers' assessments of current economic conditions have

posted much smaller gains. In the June 1991 survey, the Index of Current Economic Conditions stood at 91.9, having shown no improvement during the past three months. Compared with the nearly 50% gain in the Expectations Index from its recent low, the Index of Current Economic conditions has gained just 10% over its low reading (91.9, up from 83.7). Thus, while consumers view prospects much more favorably, at present few improvement have been recognized.

Improved Outlook For Economy

The June data indicate that consumers think that the recession's grip on the economy is weakening. To be sure, most families thought that the economy was still in recession. Reports that the economy had already shown some signs of improvement, however, have slowly risen since the start of the year, reaching 25 percent in June 1991, from 18 percent in May and a low of 8 percent in January. Moreover, when asked about news they had heard about recent changes in the economy, significantly fewer families reported hearing of unfavorable developments in the June survey.

These small improvements in the current state of the economy however, have not led consumers to expect an accelerating pace of recovery. Indeed, the proportion of families that expected further gains during the year ahead has remained largely unchanged during the past three months. Nonetheless, improvement in the national economy was almost twice as frequently expected as further declines in June (33 versus 17 percent).

The growing sense that the worst of the recession is now over resulted in an improved short-term outlook for the national economy. Good times in the economy as a whole were expected by 41 percent of all families in June, substantially above the low of 12 percent at year-end 1990. This improved outlook, however, still leaves the opinions nearly evenly divided between those that expected good times as bad times in the economy as a whole (41 versus 39 percent).

Little change has been recorded in prospects for the economy over the longer term. In the June 1991 survey, 30 percent of all families expected good times financially during the next five years, unchanged from one and two months earlier.

Unemployment Prospects: Not Higher, But Not Lower Either

While consumers think that the worst of the recession may be over, significant economic problems are expected to persist without much improvement. Chief among these concerns is unemployment.

Consumers have increasingly viewed the unemployment rate as having reached its peak, but the shift has been toward the view that the unemployment rate would remain largely unchanged at its current high level rather than decline during the year ahead. While many fewer consumers expected a rising unemployment rate in the June 1991 survey than at the start of the year (36 percent, down from 62 percent), the shift in expectations was toward an unchanged unemployment rate (48 percent, up from 29 percent), rather than a declining rate (14 percent, only marginally above the 8 percent in January).

Fewer Expect Further Declines in Interest Rates

Late last year, as the economy slipped deeper into recession, consumers increasingly came to expect declines in interest rates. By the start of 1991, 42 percent expected interest rates to fall. Since then, the proportion that expected interest rate declines has fallen, standing at 29 percent in the June 1991 survey. Rather than increases, the shift since the start of the year has been toward the view that interest rates would remain largely unchanged at their current levels (34 percent in June, up from 21 percent in January).

Inflation Expectations Inch Upward

After repeated declines from last Fall's high of

6.1%, inflation expectations inched upward in the June survey to 4.8%, from 4.6% in May and the recent low of 4.3% in April. For the second quarter as a whole, the average expected inflation rate in the April to June 1991 surveys was the lowest recorded during the past three years.

Personal Finances Remain Weak

The current evidence indicates that the personal financial situation of American families has remained weak. Among all families in the June 1991 survey, the proportion that reported their financial situation had improved was only slightly higher than the proportion that reported it had worsened (35 versus 31 percent). This dreary assessment has remained largely unchanged since the start of the year, as one-in-five households continue to report income declines. Overall, during the first half of 1991 more families reported income declines, and fewer families reported income increases, than at any other time since the recession of the early 1980s.

Consumers' assessments of their personal financial prospects weakened in June, retreating to the levels recorded earlier in the year. Among all families, 33 percent expected their financial situation to improve during the year ahead in the June 1991 survey, down from 37 percent in May.

Buying Attitudes

Following widespread improvements earlier in the year, buying attitudes have remained largely unchanged at those improved levels during the past few months.

An important reason for the improvement recorded earlier in the year was the perception that price discounts would be available. In the past few months these perception, while still quite positive, have waned. More importantly, consumers' concerns about their ability to buy, which rose sharply last fall, have remained high and continue to impede spending plans.

The affordability of major purchases also depends on interest rates and prices, as well as incomes. The declines in mortgage rates at the start of the year helped the housing market, but that help has recently diminished. For vehicle purchases, no such help in the form of reduced interest rates has yet occurred. Moreover, vehicle manufacturers have not been as aggressive with the types of deep discounting that consumers have been taught to expect--which would have also helped on the affordability issue.

Homes. Attitudes toward buying conditions for homes declined slightly in the June 1991 survey from one month earlier, but remained at more favorable levels than earlier in the year. Among all families, 72 percent rated home buying conditions favorably in June, down from 74 percent in May. This level is still well above the 61 percent recorded at the start of the year, and the recent low of 50 percent recorded in October 1990. The recent small decline was due to less favorable views of home mortgage interest rates.

Vehicles. The proportion of households holding favorable attitudes toward buying conditions for vehicles stood at 61 percent in June, unchanged from the May figure. During the past few months, fewer consumers have thought that price discounts would be available during the year ahead (43 percent in June, down from a high of 51 percent in March), while complaints about high vehicle prices rose (20 percent in June, up from a low of 14 percent three months earlier).

Household Durables. Favorable attitudes toward buying conditions for furniture, appliances, and home electronic goods were held by 62 percent of all families in the June 1991 survey, just between the 61 percent recorded one month earlier and the 63 percent recorded three months earlier.

* * *

The June 1991 survey included 501 completed interviews conducted between June 1st and June 30, 1991.